

# A problem shared?

Exploring the market for guarantor loans



**citizens  
advice**

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# Executive summary

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On 2 January 2015 the Financial Conduct Authority introduced tough new controls on payday lending. We worked closely with the FCA on these changes and welcome the protection they offer to vulnerable borrowers. Since the regulator toughened its stance, we have seen problems with payday loans fall 45 per cent.<sup>1</sup> As these changes are implemented, however, it is important that regulators are vigilant to the risk that the problems linked with payday loans simply move elsewhere. This is the first in a series of briefings on the credit products that surround payday loans, exploring the case for further improvements to consumer protection.

In this note we focus on guarantor loans, a credit product in which a borrower gives the name of a guarantor, normally a friend or family member, as security for a loan. The guarantor is then pursued by the lender in the case of default or arrears. In 2013, the latest year for which good data is available, 53,000 people took out a guarantor loan and the market was worth £154 million. This is a far smaller market than that for payday loans but we know that the market is growing. Companies House data shows the market's largest lenders have grown since 2012 while the largest guarantor lender saw its turnover grow 30 per cent and its profits 40 per cent from 2013 to 2014.

Our market analysis suggests that guarantor loans are similar to payday loans in that they are delivered quickly, typically within 24 hours, and are marketed to borrowers with poor credit histories. However, they differ in three respects. First, they are larger, typically ranging from £1,000 to £7,500 (while the average payday loan is £260). Second, they attract lower interest rates, although still high by wider industry standards, ranging from 39.9 to 49.9 per cent and averaging 46.3 per cent. Third, they last longer, with the loan contract typically lasting from 12 to 60 months. Importantly, the interest rate and duration of guarantor loans puts them outside of the standard definition of high cost credit, even though large amounts of interest can accumulate over the life of the loan.

So what harm is caused by guarantor loans? Historically our own data has shown small numbers of issues with guarantor loans; only 530 people came to us with an issue with a guarantor loan in the three years from April 2012 to April 2015. As the market has grown, however, we became concerned that this might represent under-reporting, so in April 2015 we reviewed the measurement of guarantor loans. This year alone we now project 850 cases. This remains significantly fewer than issues caused by payday loans in which we recorded 29,000 cases last year.

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<sup>1</sup><https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/payday-loan-problems-halved-since-cap-introduced/>

But given the far smaller scale of the guarantor market, this is a worrying high rate of detriment.

### **Analysing our case notes reveals four main issues are driving these cases:**

1. The extent of guarantors' responsibilities are often unclear. For example, one guarantor who came to Citizens Advice had been led to believe they were doing no more than providing a character witness for their borrower. In our cases it is not uncommon for guarantors to be entirely unaware of their responsibilities.
2. Misleading or pressurising practices take place at the point of sale. For example, our cases show a number of serious instances of duress between the guarantor and borrower.
3. Basic affordability is a problem due to the combination of high interest rates and a longer loan period. For example, one client came to us having taken out a loan for £5,000 and made payments at £197 month. After payments of £7,000, only £1,000 of loan capital had been repaid.
4. And enforcement tactics are aggressive. For example, in the circumstances that a borrower dies, a number of large lenders will enforce the debt against the guarantor.

In conclusion, we see merit in better consumer protections in the guarantor loans market. While their rates are lower than those for payday loans, the combination of high interest and longer loan periods on guarantor loans means borrowers can repay more than twice their initial loan - a figure which would violate new rules on payday loans. This suggests the need for continued vigilance and a willingness to include guarantor loans in the cap on the cost of credit if detriment continues to rise.

The most glaring failure in current protections, however, is with the treatment of guarantors. Because they are not regarded as 'customers' by regulators they do not receive the information a traditional borrower would receive and are not protected by normal rules about the fair enforcement of debts. This is a clear anomaly and is something the FCA must act to fix if vulnerable consumers, who might otherwise have been protected by the new rules around payday loans, are to avoid being pushed into another dangerous trap.

Part 1 starts by defining guarantor loans and describing their characteristics and the size of the market. Part 2 explores what our case notes tell us about detriment relating to guarantor loans. Part 3 reflects on what this could mean for consumer protections.

# Part 1: What are guarantor loans?

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Guarantor loans are a form of credit agreement in which the borrower provides security in the form of a guarantor, typically a family member or friend. The guarantor undertakes to make payments under the credit agreement if the borrower cannot pay and their name and signature appears on the guarantee and indemnity of the loan.<sup>2</sup> In effect, the guarantor takes on the same responsibilities as the borrower, including all risks of any losses arising from the credit agreement.

Guarantor loans are often marketed as an 'old fashioned' alternative to payday loans for consumers who are unable to access the mainstream credit market. While the market is currently relatively small in terms of consumer credit - just over £150 million was lent under guarantor agreements in 2013 - it is growing and has the capacity to grow further in response to the stricter regulation of high-cost short-term credit and payday lending.<sup>3</sup>

Despite being a competitor to payday loans and having the potential to become just as damaging to consumers, guarantor loans are not currently regarded as part of the high-cost short-term credit market, which is commonly defined as comprising unsecured credit products which can be taken out for 12 months or less and with an APR equal to or exceeding 100 per cent.<sup>4</sup> That omission means that guarantor lenders, while operating in much the same market as payday lenders, operate with fewer requirements as to how they conduct their business.

Under current regulations, for instance, those who act as guarantors are not regarded as *customers* within a credit agreement and, as such, while being fully liable for the loans they guarantee, are not protected by the FCA in regards to the information they receive or the way they are treated by lenders.<sup>5</sup> This shortfall has been recognised by the Financial Conduct Authority (FCA) who have recently conducted a consultation on whether to improve the protections particularly for those who act as guarantors.

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<sup>2</sup> FCA, (2015) 'Consumer credit – proposed changes to our rules and guidance'

<sup>3</sup> FCA, (2014) 'Detailed rules for the FCA regime for consumer credit'

<sup>4</sup> FCA, (2014) 'Detailed rules for the FCA regime for consumer credit'

<sup>5</sup> FCA, (2015) 'Consumer credit – proposed changes to our rules and guidance'

# Product characteristics

Having outlined the legal status of guarantor loans, we now describe the market and the products on offer. Using a sample of the products provided by prominent guarantor lenders, we have analysed the key characteristics of cost, size, duration, the standard terms of the loans, and how they are marketed.<sup>6</sup> We find that guarantor loans differ from payday loans in several respects:

## Interest rates charged

The cost of guarantor loans provided by the largest lenders varies based on the size of the loan being taken out and the characteristics of the borrower. Looking solely at each provider's headline advertised annual percentage rate (APR), guarantor loans are provided at an average of 46.3% APR, with rates varying from 39.9% to 49.9%.

## Amount of loan

Guarantor loans are typically offered for between £1000 and £7,500, and as much as £12,000. In contrast, payday loans are typically offered for £1000 or less and the average payday loan is for £260<sup>7</sup>

## Duration

As well as offering loans for significantly larger amounts than payday lenders, the guarantor lenders sampled offer loans over significantly longer periods. As illustrated in Figure 1, the overwhelming majority of firms sampled offer loans which are repayable between 12 and 60 months, occasionally offering repayment periods of up to 84 months.

Our market analysis suggests that other aspects of guarantor loans are more similar to the payday product, in particular:

## Access and repayment

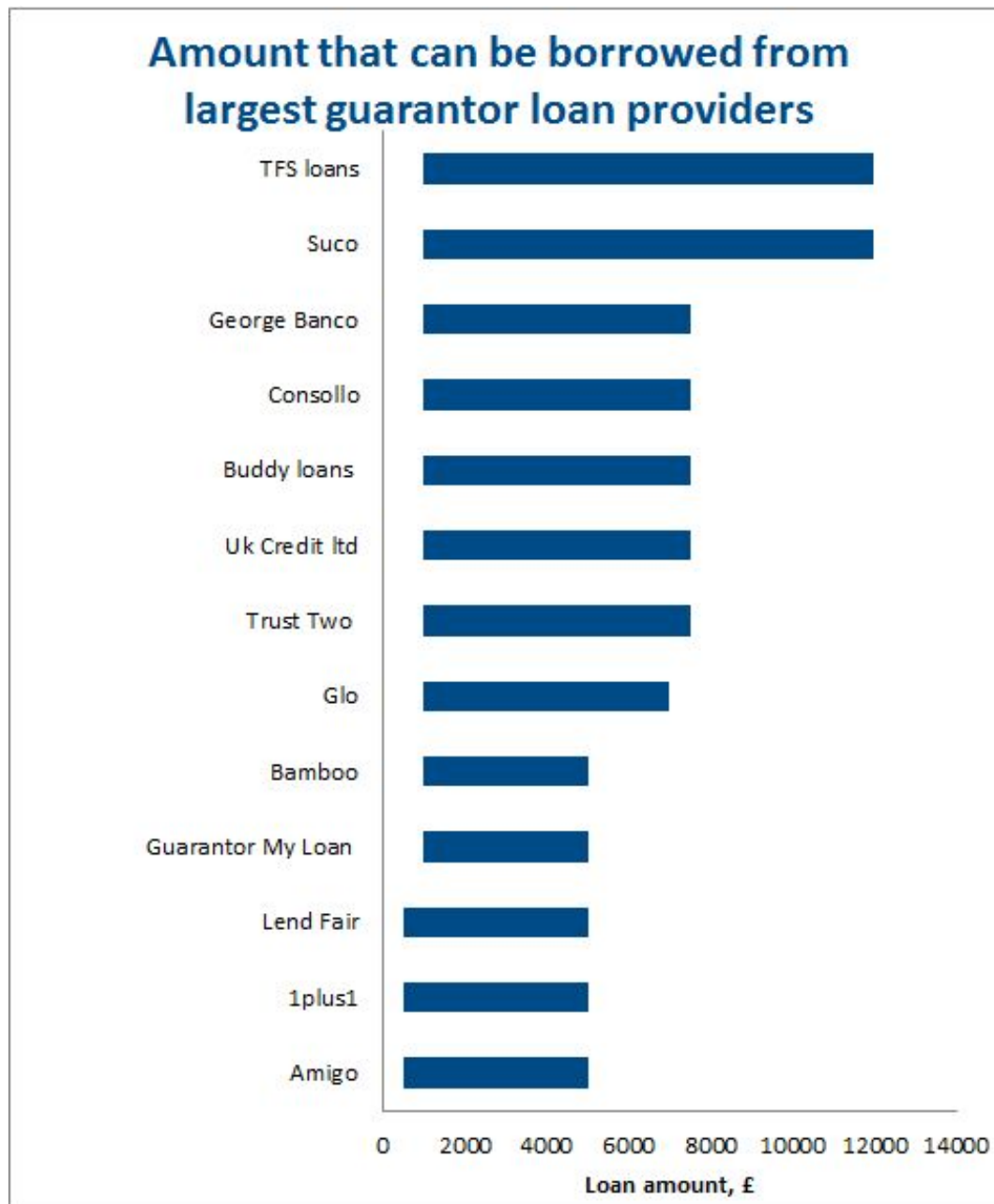
The large lenders sampled often offer delivery of the loan balance in as little as 24 hours and the majority of the lenders sampled were predominantly, or solely, based online.

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<sup>6</sup> The firms sampled were selected using <http://www.money.co.uk/loans/guarantor-loans.htm>, accessed March - April 2015 and cross-referenced with a range of comparison websites, the lenders' own websites, and where available, company reports submitted to Companies House

<sup>7</sup> Competition Market Authority, (2015) 'Payday lending market investigation'

Figure 1



### Marketing:

A further similarity is that guarantor loans are marketed to borrowers with poor credit histories, sometimes as consolidation, or 'solution' loans for borrowers who hold a number of other consumer debts. Lenders also highlight the large amount which can be borrowed, despite a poor credit history, as well as the opportunity for borrowers to improve their credit rating through making repayments.<sup>8</sup>

<sup>8</sup> <https://www.glo.co.uk/about-us> accessed June 2015

Writing for the Independent, the then manager of a large guarantor loans provider summed up the approach as,

‘If you have a bad credit history or have been rejected by other lenders, then guarantor loans could be the right choice for you. A guarantor loan also allows you to borrow a higher sum than you would be able to with other types of loans targeting people with poor credit. It's also possible to rebuild your credit history by demonstrating that you are a responsible borrower and are able to make the repayments on time.’

## Describing the market

Guarantor loans, then, can be described not just in terms of how they function, but more substantively in relation to the nature of the products on the market. They do not fit neatly within the widely used definitions of high-cost short-term credit that are used to encapsulate payday lending. Key characteristics of guarantor loans are that they are typically;

- Offered at an APR of between 40 and 50 per cent
- For a value of between £1,000 and £12,000
- Repayable between 12 and 60 months
- Targeted at high-risk borrowers

In this sense guarantor loans can be described as a form of medium-term credit, similar to car finance or other unsecured loans. However, due to the combination of relatively high interest rates, as well as the longer duration, the overall cost of the product to borrowers can be significantly more than that typically paid for other unsecured loans - and, in some cases, higher than payday loans relative to the original loan amount. Despite falling outside of the definition of high-cost credit used by the FCA therefore, we consider guarantor loans as part of the high-cost credit market due to the overall cost and the fact they are developed specifically for higher-risk borrowers.<sup>9</sup>

## The size of the market

How big is the market for guarantor loans? Despite their status as an emerging or peripheral credit product, over 53,000 people took out a guarantor loan in 2013, totalling £154 million.<sup>10</sup> Financial reports filed with Companies House, while not offering a complete picture of the market, suggest that the larger lenders (those that are required to file reports) have experienced growth since 2012, with the

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<sup>9</sup> Citizens Advice, (2014) ‘Citizens Advice evidence on bill of sale consumer lending’

<sup>10</sup> FCA, (2015) ‘Consumer credit – proposed changes to our rules and guidance’



largest guarantor lender reporting over 30 per cent growth in revenue and 40 per cent growth in profits between 2012/13 and 2013/14.<sup>11</sup>

The recent entry of new companies to the guarantor loans market - itself an indicator of a growing market - makes it hard to gauge accurately the market's current size. However, FCA figures are robust and indicate that this is a sizeable market, making it important to limit consumer detriment - particularly in the context of possible future growth.

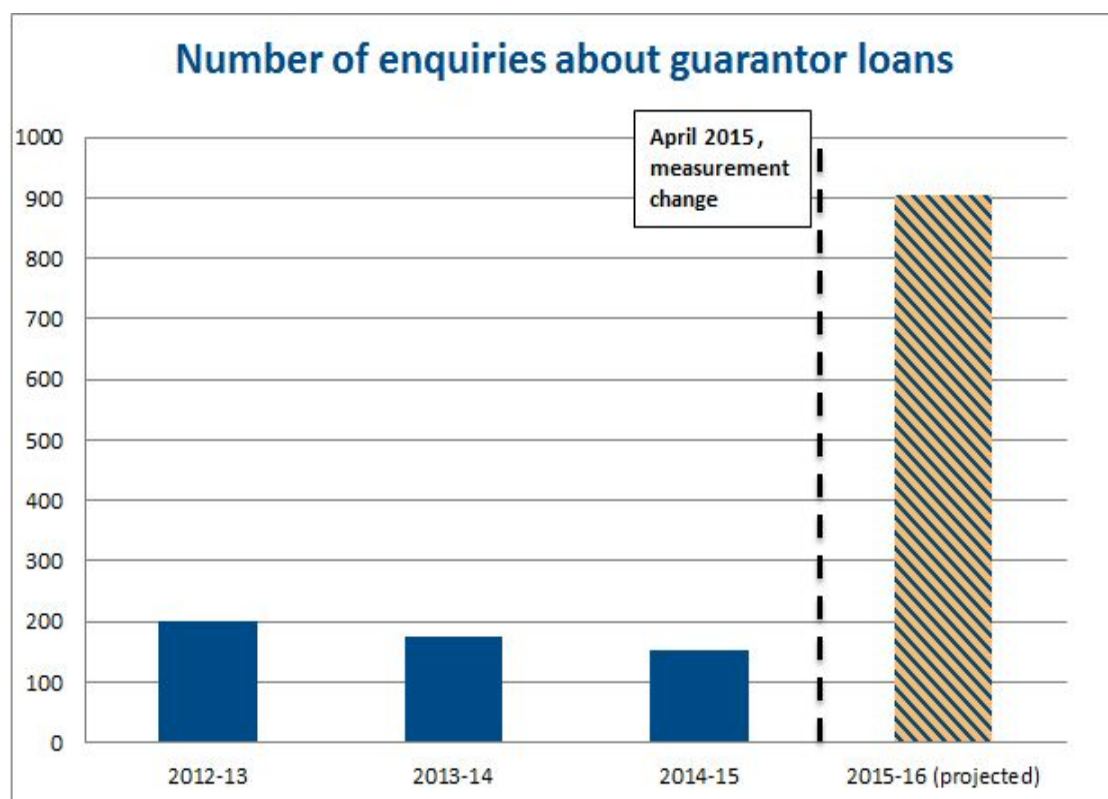
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<sup>11</sup> Company reports of the sampled lenders were accessed in April 2015, we only included companies in our calculations whose main business was guarantor lending

# Part 2: Evidence on guarantor loans

We now turn to the evidence of detriment in our own case records. Analysing data received from local Citizens Advice, a total of 530 cases were reported between April 2012 and April 2015 involving a detriment related to a guarantor loan. As illustrated in Figure 2 the number of issues raised with Citizens Advice has been relatively stable over this three year period. This is a relatively low number of cases by comparison with other categories of credit. For example, we saw 29,000 cases related to payday loans last year alone.

Figure 2



Since April 2015, however, due to insights from our local advisors and our work with the FCA, we have altered the way we record guarantor loan issues seen by local Citizens Advice. This has resulted in a sharp increase in the number of issues reported. On current rates, we expect to see over 850 guarantor loans cases over

the next 12 months.<sup>12</sup> This scale of issues is in line with wider estimates of problematic debt in this part of the market.<sup>13</sup>

Despite the relatively low number of guarantor loan issues reported to Citizens Advice, the shrinking of the payday loans market in response to recent regulatory changes means guarantor loans could pose a growing risk to consumers.<sup>14</sup> Because of the longer duration of guarantor loans, we expect there to be a long lag before any such spike in problems feeds through. We would also expect issues with guarantor loans to increase as public awareness of the product grows.

## Issues emerging from guarantor loans cases

What is driving the issues we see with guarantor loans? We have analysed recent cases from local Citizens Advice and from the consumer service phone line. Since 2012, 42 per cent of our cases were from guarantors, 32 per cent from borrowers, and 27 per cent from clients who were neither borrowers, nor guarantors and whose issues were generally related to the conduct of credit brokers in respect of guarantor loans.<sup>15</sup>

Despite the relatively small number of cases it is possible to identify a pattern in the types of issue most commonly seen by Citizens Advice. The four main categories of issue we see relate to:

- The extent of the responsibility of guarantors
- Misconduct when selling
- Affordability
- Enforcement

In addition, a fifth issue emerged around data protection and the sharing of client information both with and by guarantor lenders and the way lenders interact with credit brokers.<sup>16</sup>

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<sup>12</sup> The projected figure is calculated using data collected by Local Citizens Advice since April 2015. While the figure is not directly comparable with the data for the earlier periods, it is illustrative of the fact that we have been undercounting the number of issues relating to guarantor loans

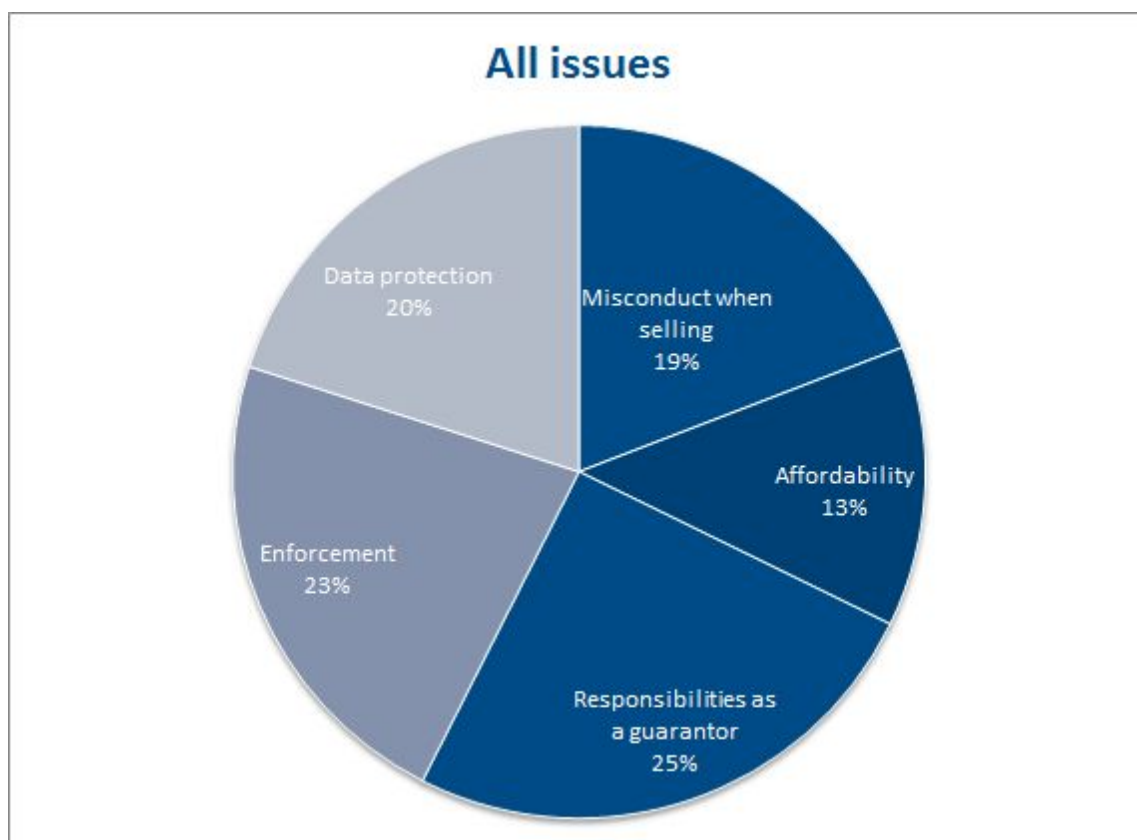
<sup>13</sup> For example, *Stepchange* reported in 2014 that almost 4,000 of their clients had taken out a guarantor loan, an increase of nearly 60% since 2012. Stepchange (2014), 'Statistics Yearbook, Personal Debt'

<sup>14</sup> Consumer Finance Association (2015) 'High Street Lenders impacted by regulations and new price cap' <http://www.cfa-uk.co.uk/media-centre/press-releases/current-press-releases/high-street-lenders-impacted-by-regulations-and-new-price-cap.html>

<sup>15</sup> Issues which relate specifically to credit brokers will be dealt with in more detail elsewhere.

<sup>16</sup> The issue of data protection and detail sharing will be addressed in more detail elsewhere

Figure 3



Overall, the five issues appear with similar frequency, although the responsibilities of guarantors is the most common issue we see (25 per cent of all guarantor loan cases). As would be expected, borrowers and guarantors experience a different mix of issues. It was most common for guarantors to come to us with problems over their responsibilities (43 per cent) while borrowers were more likely to come to us with problems with enforcement (36 per cent).

Figure 4

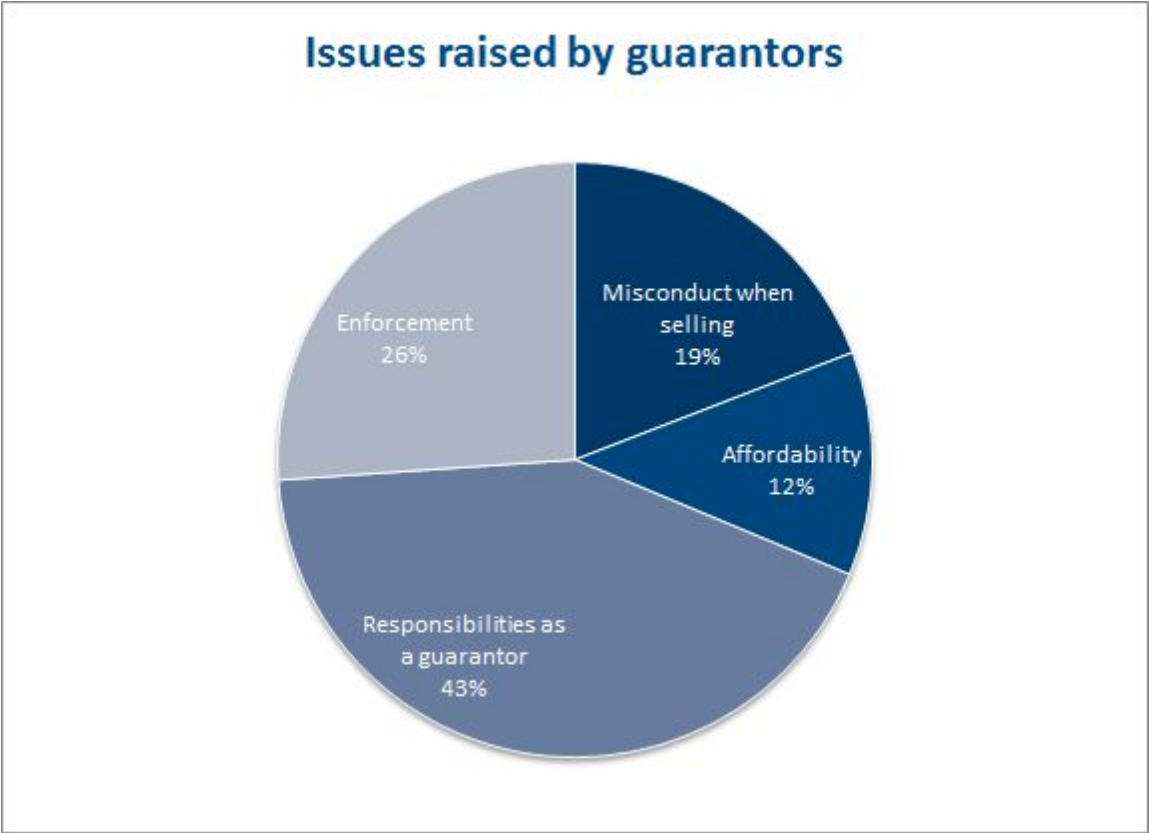
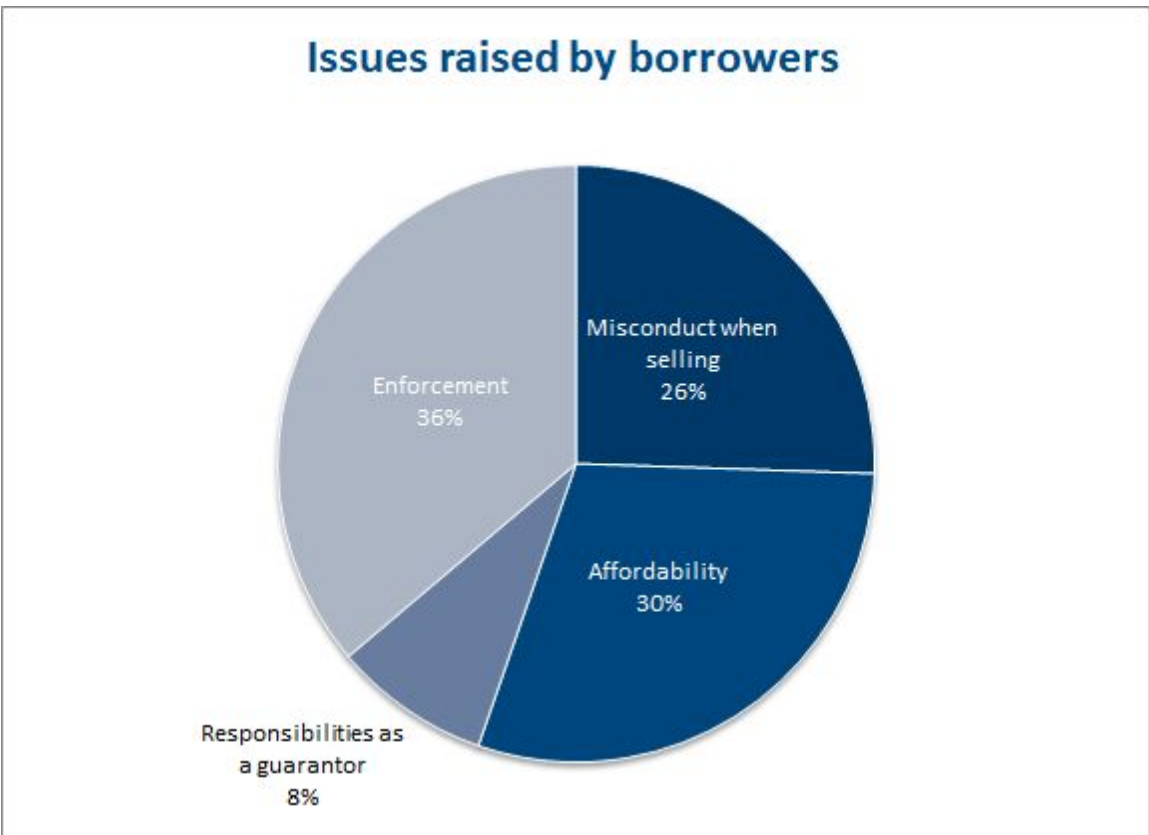


Figure 5



# Problem areas

Despite the relatively small number of cases we see, our detailed case notes give a good sense of the problems experienced by clients.

## 1. The responsibilities of guarantors

The most common issue we see concerns the responsibilities of guarantors. Overall, 25 per cent of issues involving a guarantor loan involved some misunderstanding of what guarantors were responsible for and 43 per cent of guarantors who sought the help of Citizens Advice raised an issue concerning the extent of their responsibilities.

A large number of these issues relate to the extent of liability that is taken on by a guarantor. Many clients were unaware that they took on the full responsibility for loan repayments when they guaranteed a loan, or the fact that lenders would be in a position to seek repayment from them on the same or (due to accumulated arrears) more severe terms than the borrower.

In many instances it is only when the relationship between the borrower and the guarantor breaks down that a guarantor begins to realise the extent of their liability and seeks advice as to their legal position. The detriment caused by this situation goes beyond the financial distress to the guarantor and can lead to court proceedings between individuals and, in some cases, to relationship breakdown. The following case indicates the nature of this problem:

*'I foolishly agreed to guarantee a loan to someone I thought I could trust completely. The payments were kept up for a few months and then she defaulted and I was forced, because of almost 50% interest charges, to remortgage and pay back the loan. [The borrower] agreed to set up a standing order to pay me back at a much lower rate. However this didn't happen and since then I have received the occasional £10 but no serious attempt to repay me. I intend to take her to court.'*

One client had been told that guaranteeing a loan was like providing a character witness. This misunderstanding illustrates the common confusion over how guarantor loans function.

## 2. Misconduct when selling

A number of clients, both borrowers and guarantors, had problems with the information they had received when taking out a loan. One client noted that they had been sold the product as 'the simple old way' of borrowing. This did not, to their mind, reflect how the product worked in practice.

Overall 19 per cent of issues related to guarantor loans involved problems with point of sale information and 26 per cent of the borrowers who came to us were concerned with the selling practices of lenders.

One common concern raised by our cases is the way guarantors give their consent. In many cases guarantors were contacted by phone or email and did not have access to a hard or easily readable copy of terms and conditions. In a number of instances, guarantors had provided an electronic signature but were unaware that this amounted to a legal agreement or any agreement at all. In extreme cases, Citizens Advice saw clients who had agreed to act as guarantors and entered into a contract over the phone, despite having a limited grasp of English. We have also seen instances of fraudulent behaviour by borrowers in which individuals have been signed up to become guarantors without their knowledge or agreement.

As well as failing to provide adequate information, our evidence highlights other problems at point of sale. In some instances our clients reported guarantor loans that had been taken out under duress or undue influence from the borrower.

A client from Wolverhampton enquired on behalf of her 19 year old daughter who had become a guarantor for someone she lived with after being pressured into doing so. When the loan payment was made into her account, the borrower accompanied her to withdraw the money. The client's daughter has since been ejected from the house she lived in and is being asked to make repayments on the loan.

Another client who had left her marriage due to domestic abuse, and was already receiving help from Women's Aid and the police, sought advice over a loan on which she was a guarantor for her husband.

Other clients sought the help of Citizens Advice after acting as guarantors for bosses and work colleagues and feeling they had been pressured into the position.

Local Citizens Advice have also seen cases of clients with mental health problems having agreed to guarantee loans which they were now being required to pay.



### 3. Affordability

Issues caused by guarantor loans are often related to affordability. Citizens Advice sees borrowers who have taken out a guarantor loan despite holding a number of other debts and who have struggled to make repayments from the outset.

Affordability issues for guarantors are exacerbated by both the lending practices of firms and the nature of the product. For example, the following is a first hand description of the experience of one Citizens Advice client:

*'I was a Guarantor for my friend who took out a loan of £3000. She fell into difficulties after three years when she lost her job and house. After missing two payments they were harassing her every day for the payments, she asked if they would consider adding the two missed payments to the end of the loan and she would then carry on with future payments. They would not listen to this and still wanted their money, so started harassing me, phoning a few times a day. I tried talking to them as I know her mum had been just diagnosed with cancer on top of everything else. I offered a £900 final payment to finish it, but still they would not listen to reason. I paid £1,761.27 just to end the loan. I have worked out she had already paid £5,184 and I paid £1,761.27 to end the loan.'*

Another client complained of the slow rate at which the outstanding amount on the loan was decreasing.

One client took out a loan for £5,000 and has been paying back the loan at £197 per month. Despite these monthly repayments the outstanding loan has only reduced by £1000 despite the client having made payments in excess of £7,000 to date. The client stated that the loan is only going down by £9 each month.

In summary, the affordability issues we see in relation to guarantor loans reflect the design of the product. The existence of the guarantor reduces lenders' incentives to conduct thorough affordability checks on the borrower. Meanwhile, guarantors themselves often under-appreciate the challenge of underwriting a loan, with lenders typically turning to them only once the borrower has accrued arrears, requiring the guarantor to make significant repayments at short notice.



## 4. Enforcement; debt collection, forbearance and negotiation

A further 23 per cent of issues seen by Citizens Advice related to enforcement and debt collection practices. Borrowers seen by local Citizens Advice were often concerned that they were unable to negotiate their repayments or consider any form of debt solution when their circumstances changed. Often, the only option was for their guarantor to pay their loan.

One client, due to financial problems, took out a guarantor loan giving her sister's name as guarantor. The repayments were £173 per month. The client came to Citizens Advice after struggling to pay off this and other loans. A Citizens Advice debt advisor attempted to contact the company to discuss repayment terms. However, in the meantime the lender first contacted the sister for repayment, then the sister's husband and finally the sister's son.

A number of lenders' credit agreements stipulate that even if a borrower dies, the guarantor will remain liable for the debt.<sup>17</sup>

As well as offering limited flexibility to borrowers, guarantors who came to Citizens Advice reported that lenders were aggressive in their collection practices. Some guarantors whose circumstances changed were not able to renegotiate their repayments.

In some cases guarantors felt that lenders had not attempted to collect repayments from the borrower and they were being pursued prematurely. More common, however, were issues related to the lack of due consideration shown to guarantors. The following is a first hand account of one Citizens Advice client:

*'My daughter took out a £3,000 loan and I went as guarantor - she then lost her job and I went through a divorce, a house move and a financial change. We are struggling to make the payments every month but do manage to catch back up eventually. [The loan company] knows about our financial circumstances and now they are adding on interest and ringing my work place asking me to call them back. When we did the initial financial assessment this was completed over the telephone... Is there anything we can do to get the monthly payments reduced, so that myself and daughter can afford to pay them. Are they allowed to contact my place of work? is there any help out there for us?'*

The aggressive collection practices of some guarantor loan providers can place a strain on the relationship between borrower and guarantor.

<sup>17</sup> [http://www.amigoloans.co.uk/Terms#gt\\_responsibility](http://www.amigoloans.co.uk/Terms#gt_responsibility) accessed in June 2015

# Part 3: Recommendations

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The FCA has consulted on updating the rules in the Consumer Credit sourcebook (CONC),<sup>18</sup> including those covering guarantor loans. The proposed changes, set out in full in Appendix 1, would be a sensible improvement to the regulation of the market. Extending protections and high-level Principles for Business, which are currently limited to borrowers (as ‘customers’ in the FCA’s terminology) to guarantors, would go some way to limiting consumer detriment in the guarantor loans market.

However, there is a case for the FCA going further in order to reduce the detriment caused by guarantor loans. In particular, we believe there is potential for stronger protections in the following areas.

## 1. Ensure guarantors are aware of their responsibilities

Guarantor loans are a complex product and we have identified many instances in which loan providers are failing to provide adequate information to guarantors.

The FCA are currently proposing to require that guarantor lenders ‘provide an adequate pre-contractual explanation to the guarantor, covering the circumstances in which the guarantee or indemnity may be called on and the implications for the guarantor if it is’.<sup>19</sup> There is a case for strengthening this approach by requiring lenders to provide guarantors and borrowers with a physical notice of agreement.

**Recommendation 1:** The FCA should require lenders to provide guarantors and borrowers with a physical notice of agreement within a cooling off period in which they can withdraw from the agreement.<sup>20</sup>

Consumer protection could also do more to ensure borrowers are aware at the outset that their risk will be shared equally with a friend or a relative.

**Recommendation 2:** All guarantor lenders should be required to include a warning on their promotional material along the following lines: ‘Your guarantor will be liable to pay the full cost of the loan if you are unable to meet your loan repayments’

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<sup>18</sup> FCA, (2015) ‘Consumer credit - proposed changes to our rules and guidance’

<sup>19</sup> CONC 4.6.5R (proposed)

<sup>20</sup> A number of lenders currently offer a 14 day cooling off period with no requirement to send a notice of agreement.

## 2. Financial abuse

To combat cases of duress, undue influence or the exploitation of vulnerable individuals, lenders should be required to advise guarantors to seek independent legal advice.

**Recommendation 3:** Where there is a concern, or a presumption, of undue influence, it should be a requirement that firms advise guarantors to seek independent legal advice in line with requirements for mortgage securities.

## 3. Signposting to free debt advice

As with other consumer credit products aimed at high-risk consumers, guarantor lenders should signpost free debt advice.

**Recommendation 4:** Providers of guarantor loans should be required to signpost free independent debt advice to borrowers.

## 4. Enforcement

The FCA's proposal that guarantors should be given the same protection as borrowers in relation to default or arrears is sensible.<sup>21</sup> But there is a case for further protections to ensure that guarantors are treated as standalone individuals and not simply as an extension of the borrower's repayment process.

For example, when a guarantor is required to pay an installment, they should not be treated as a borrower already in arrears but as a backstop, limiting the risk taken on by the lender in unforeseen circumstances.

**Recommendation 5:** When a guarantor is required to make a repayment for a loan, firms should be required to provide guarantors with adequate notice of the default and sufficient time to meet their liability.

Further issues are caused by borrowers not being treated in accordance with the rules on default and recovery which *are* currently required from lenders.<sup>22</sup> This includes actions such as allowing token payments while the consumer recovers from an unexpected income shock.

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<sup>21</sup> CONC 7.1.4R (proposed)

<sup>22</sup> CONC 7

**Recommendation 6:** Guarantor firms should treat borrowers with forbearance in cases where a borrower wants to avoid their guarantor becoming liable and where their personal circumstances fit the relevant solution.

These steps would encourage lenders to see guarantors as a backstop rather than a direct source of repayment, encouraging adequate affordability checks on borrowers, reasonable efforts to secure repayment from the original borrower, and fair treatment of guarantors in the enforcement process.

# Conclusion

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The FCA's new rules on payday lending are a model of consumer protection. Since the regulator took a tougher approach we have seen the number of problems with payday loans fall 45 per cent. As the high-cost credit market adapts to these changes, however, consumer bodies need to be vigilant and pre-empt the risk that the problem simply migrates elsewhere. For this reason, we are publishing a series of policy briefings on the high cost credit market around payday loans, assessing the state of consumer protections.

Guarantor loans are marketed as an old and reliable form of lending but they are in fact a complex financial product targeted at high-risk borrowers and vulnerable consumers. The aggressive practices of guarantor lenders and relative lack of protection for guarantors create fertile conditions for consumer detriment. As yet it is too soon to know if the market will grow in response to the better protection of payday borrowers. But we do know that the largest players in the guarantor loans market are already growing and that, in a number of respects, consumer protections for guarantor loans are inadequate.

A number of problems recur in our case notes. Guarantors are not adequately informed of the responsibilities they are taking on. Credit agreements are often entered into without clear information and both borrowers and guarantors can be left with unaffordable loans which put a strain on personal relationships. Guarantor lenders also regularly fail to treat borrowers and guarantors with due consideration. Borrowers are not offered adequate debt solutions when their circumstances change and guarantors are offered little flexibility to meet their commitments. In many respects, these weaknesses make guarantor loans an anomaly, offering consumers less protection than other similar credit products.

So while we support the work the FCA has done to limit the detriment caused by guarantor loans, we believe there is a case for going further. In the context of a shrinking supply of payday loans, stronger governance of guarantor loans would be a smart pre-emptive step, helping to prevent another payday loan-style spike in consumer detriment before it develops.

# Appendices

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## Appendix 1

### FCA proposed changes to the rules and guidance for providers of guarantor loans<sup>23</sup>

FCA Recommendations
CONC 4.2.22R – to require the firm to provide an adequate pre-contractual explanation to the guarantor, covering the circumstances in which the guarantee or indemnity may be called on and the implications for the guarantor if it is.
CONC 4.6.5R – to require the firm to provide an adequate pre-contractual explanation to the guarantor before a continuous payment authority (CPA) is granted. The terms of the CPA must be in plain and intelligible language.
CONC 5.2.5R – to require the firm to assess the potential for the guarantor's commitments in relation to the credit agreement to adversely affect the guarantor's financial situation. The firm must consider sufficient information to enable it to make a reasonable assessment.
CONC 6.2.1AR – to require the firm to make a similar assessment before any significant increase in the amount of credit under the credit agreement.
CONC 6.7.25AR – to extend to guarantors the requirements relating to amendments to the terms of a CPA.
CONC 7.1.4R – to provide that a guarantor is to be treated as a customer for the purposes of CONC 7.3.4R (treating customers in default or arrears difficulties with forbearance and due consideration), and other CONC 7 rules on arrears, default and recovery, with the exception of provisions solely applicable to a borrower.
CONC 7.6.15AG – to clarify that, where a guarantor has given a CPA in relation to a HCSTC agreement, the limit of two unsuccessful attempts on use of the CPA applies separately to the borrower and the guarantor.

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<sup>23</sup> FCA, (2015) 'Consumer credit - proposed changes to our rules and guidance'

PRIN – to clarify that a guarantor is to be treated as a customer for the purposes of Principle 6 (treating customers fairly) and Principle 7 (communications).